Taking Some of the Mystery Out of Margin and Markup

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GSDI 23rd Annual Spring Septic System Conference and Exposition
Shawn McCadden is a nationally-known columnist, speaker, business trainer and award-winning remodeler. As a Certified Remodeler, Certified Lead Carpenter, and RRP Certified Renovator McCadden has more than 30 years of personal experience in the remodeling and new home construction industry. He was the owner of his own multi-million-dollar design/build remodeling business, Custom Contracting, Inc., in Arlington, Massachusetts until he sold that business in May 2004, was the co-founder of the Residential Design/Build Institute, which trained best business practices to remodelers and contractors across the nation and served as Director of Business Innovations for DreamMaker Bath and Kitchen.

Today, Shawn works with aspiring remodelers, helping them discover, identify and achieve their professional and personal goals. Some of the services he offers to serious remodelers include: Establishing company organization and procedures, planning and budgeting for business and personal profitability, starting a new business, and saving an existing business.

Shawn has received many industry awards including several NARI CotY Awards, Remodeling Magazine’s BIG50, QR Magazines Top 500 and NARI’s Harold Hammerman Sprit of Education Award.

An active member or the National Association of the Remodeling Industry (NARI), McCadden has served as a Massachusetts local Board Representative and was a member of the NARI Certification Board. He writes an award winning monthly column and a weekly blog for Remodeling Magazine and speaks at industry trade shows and conventions throughout the year.

McCadden makes his home in Massachusetts with his wife and daughters.
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Self Quiz!

- I/we know the real cost of business to achieve an established plan
- I/we have a chart of accounts formatted to separate direct and indirect costs
- I/we have established a profit goal above and beyond owner salary
- I/we know burdened cost of labor per employee
- I/we have a list of key financial health metrics and reports to determine same
- I/we have positive cash flow and we are consistently over billed

Two Typical Reasons For Small Business Failure

- Even if operating profitably, the business does not have money when it needs it.
- The business grows faster than it's business systems can handle.

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Reversed Puffer Fish Theory
- Company quickly grows into the unknown
- Becomes overwhelmed
- Starts to lose money
- Retreats back to a comfort level

“What if” for a “What if”
- Guess on labor hours
- Guess on Labor cost/hour
- Guess on Mark-up
- Equals guess what?
- WAG vs. SWAG?

The Efficiently Managed Construction Company:
- Can accurately estimate project costs.
- Knows what to mark-up their costs.
- Can sell the work at that price.
- Can efficiently complete that work with quality.
- Can track the performance of the business.
- Will make adjustments when needed.
- Gets referrals!
Cash Vs. Accrual Accounting
- What is the difference?
- Why use one Vs. the other?

Knowing What To Charge
- Understanding the game gives confidence!
- How money comes in
- How money goes out
- How to predict what to charge so enough money comes in to cover what goes out
- Chasing Dollars vs. Profit?

Establishing the Markup:
- This is not magic!
- What is a “Professional Markup” anyway?

Indirect costs + Direct costs = Markup %
Establishing Your Markup

Expenses + Net Profit = Indirect costs

Indirect Costs + Direct Costs = Mark-up %

Margin and Markup

- So what is the difference?
  - Markup gets you to your Sales Price.
  - Margin tells you if you have produced your projects at the estimated direct costs.

Make Sure All Direct Costs End Up In Your Estimate.

- Why?
- Burdened Labor?
- Covering odd supplies?
- How much does it cost to miss things on the estimate?
Overhead Myths?

- Because a contractor’s business is small his overhead is negligible.
- Large companies have a greater overhead than small companies.
- Overhead costs will increase as the business grows.

When Overhead Is $100,000.

- At 25% GPM, the break even is $400,000 (34% Mark-up)
- At 33% GPM, the break even is $300,000 (50% Mark-up)
- At 40% GPM, the break even is $250,000 (67% Mark-up)
- At 50% GPM, the break even is $200,000 (100% Mark-up)

So, How do I know if I’m Making Money?

- First, complete your business budget, the planned route for success.
- Believe what your budget tells you to do!
- Create standard methods and systems to monitor performance.
- Create standard policies to follow.

Follow Them!
Thanks for the Opportunity!

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“How committed are you? There is a remarkable difference between a commitment of 99% and 100%.”
- Vic Conant